

Message Text

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12

ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 XMB-02
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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 6286

INFO AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY ROME

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E.O. 11652:N/A

TAGS: EAIR, ETRD, CE

SUBJECT: CIVAIR: AIR CEYLON CONSIDERING PURCHASE OF BOEING

727 AND

PLANS LEASE 720

1. V. MICHAEL FITZGERALD, BOEINGSALES DIRECTOR FOR SOUTHEAST ASIA, VISITED COLOMBO DECEMBER 7 FOR TALKS WITH AIR CEYLON ON POSSIBLE PURCHASE OF 727. FITZGERALD TOLD EMBOFF THAT AIR CEYLON WANTS 727C (CONVERTIBLE PASSENGER/FREIGHT CONFIGURATION) WHICH IS MOST EXPENSIVE 727 MODEL SELLING FOR AROUND \$14 MILLION. A STRAIGHT PASSENGER VERSION WOULD RUN ABOUT \$12 MILLION. PURCHASE STILL IN VERY PRELIMINARY STAGES OF DISCUSSION, BUT FITZGERALD SAID HE HAD ALREADY BEEN APPROACHED BY A "GULF STATE BANK" TO PROVIDE FINANCING. HE ALSO UNDERSTANDS AIR CEYLON ALSO HAS ITS OWN SOURCE OF FINANCING ALSO IN GULF STATES. IS NOT CLEAR HOW FINANCING THESE GULF STATE SOURCES WILLING TO SUPPLY, AND FITZGERALD PLANS TO LOOK INTO POSSIBILITY OF EXIM SUPPORT. EARLIEST DELIVERY WOULD BE IN 1978.

2. MORE IMMEDIATELY, AIR CEYLON HAS BEEN ADVERTISING 820 FLIGHTS TO MIDDLE EAST TO BEGIN DECEMBER 15. FITZGERALD SAID HE UNDERSTOOD 720 WILL BE DRY LEASED FROM BRITISH CALEDONIAN AIRWAYS FOR \$35,000 PER MONTH PLUS \$95 PER
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FLIGHT HOUR (MINIMUM OF 90 HOURS PER MONTH) TO BE PAID

INTO MAIN OVERHAUL FUND. AIR CEYLON WILL PAY ALL OTHER EXPENSES FOR ROUTINE MAINTENANCE , SPARES, FUEL, INSURANCE, ETC. LEASE IS FOR SIX MONTHS WITH OPTION TO BUY; IF AIR CEYLON DECIDES TO BUY, 60 PERCENT OF LEASE PAYMENTS WILL APPLY TOWARD SALE PRICE OF \$1 MILLION. ACCORDING TO FITZGERALD, AIRCRAFT HAS 35,000 FLIGHT HOURS AND IS NOT EQUIPPED WITH FAN ENGINES. HE SAID THAT WHILE TERMS OF OFFER ARE ATTRACTIVE TO AIR CEYLON, 720 WOULD BE EVEN MORE INEFFICIENT THAN TRIDENT AIR CEYLON IS TRYING TO UNLOAD. HE THINKS LOAD FACTORS OF 70-80 PERCENT WOULD BE REQUIRED FOR 720 TO BREAK EVEN.

3. FITZGERALD HAS TOLD AIR CEYLON THAT IF THEY WOULD BUY 727, HE WOULD DO WHAT HE COULD TO HELP SELL TRIDENT. BASIC PROBLEM IS THAT TRIDENT CURRENTLY WORTH ONLY \$600,000 TO \$800,000 BUT AIR CEYLON STILL OWES HAWKER-SIDDELEY 2 MILLION. HE THINKS AIR CEYLON SHOULD KEEP TRIDENT FOR TIME BEING UNTIL LOAN AMORTIZED DOWN TO AIRCRAFT'S MARKET VALUE.
REED

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